HOUSING MARKET OUTLOOK
Kitchener and Guelph CMAs

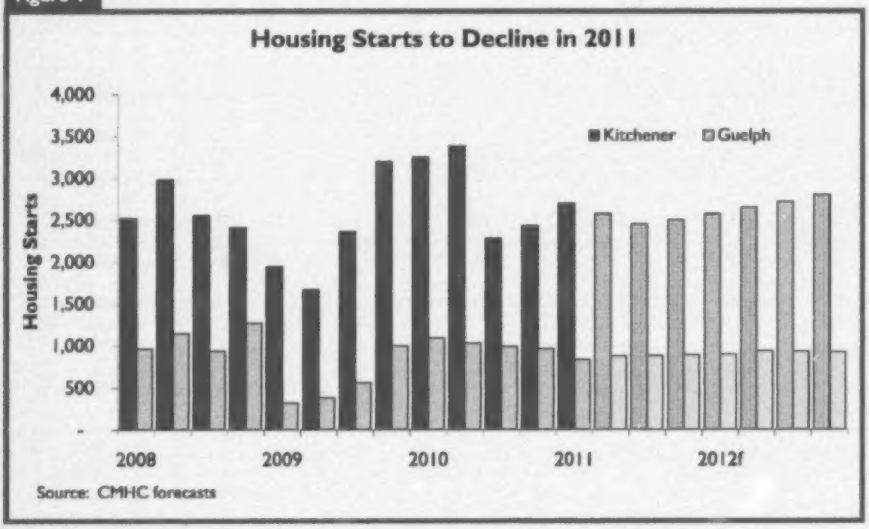
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2011

Market at a Glance

- Sales will moderate through the remainder of 2011 and pick up into 2012.
- New listings will remain high, and the market will ease but still favour sellers for much of the year.
- New home construction will fall back from the stronger level in 2010 and will gain strength later in 2011.
- Higher employment and population growth will support housing demand by 2012.

Figure 1



[1] The forecasts included in this document are based on information available as of April 28, 2011.

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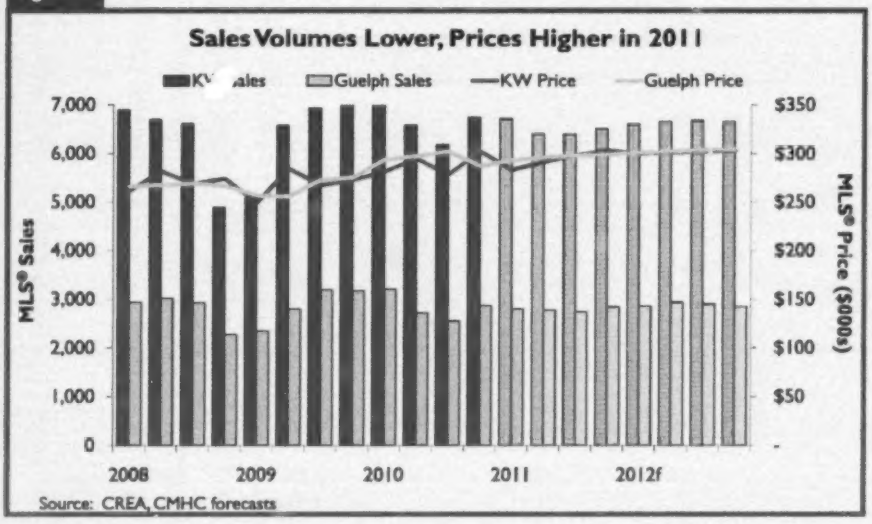
Figure 2



Resale Home Market

Resale Volumes Lower in 2011

After the volatility of the past three years, there will be more stability in the resale home market in 2011. Sales are expected to moderate somewhat before improving later in 2011, but, on average, sales of existing homes through the Kitchener-Waterloo Association of Realtors® will decrease four per cent in 2011 from 2010. Sales through the Guelph and District Association of Realtors® will slide by just over one per cent.

Sales in the first quarter of 2011 continued to trend higher. Low mortgage rates and continued growth in the economy supported sales, but some homebuyers purchased early in the year to avoid mortgage insurance changes effective mid-March 2011. This bring-forward effect will diminish, and sales will slip somewhat from the first quarter, as tighter mortgage rules will cause some first-time buyers to postpone their home purchase. With an improving economy, demand will pick up later in 2011 and into 2012. With mortgage rates expected to increase in the latter part of 2011 and into 2012, incomes required to qualify for a home purchase will increase at a faster pace than actual incomes. However, stronger labour market conditions and increased in-migration will more than offset the drag on sales due to fewer first-time buyers.

First-Time Buyer Demand Easing

In 2010 prices grew faster than incomes. This will limit sales coming from first-time buyers who typically have below-average incomes and savings. With higher mortgage carrying costs and shorter amortization periods, first-time buyers will take longer to meet qualifying criteria. As single-detached prices rise, first-time buyer demand will shift towards entry-level product such as townhouses or condominium apartments.

The population in the move-up age category is also growing, and the reduction in first-time buyers will at least be partially offset by strong sales to move-up buyers. The empty-nester and retiree population is also expanding quickly – the trend is towards downsizing, which would indicate an increase in demand for bungalows and condominium apartments.

Figure 3

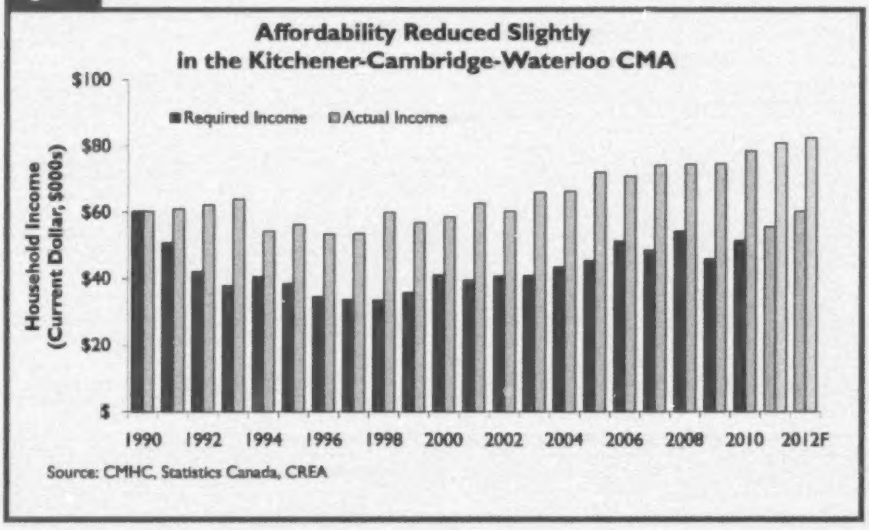
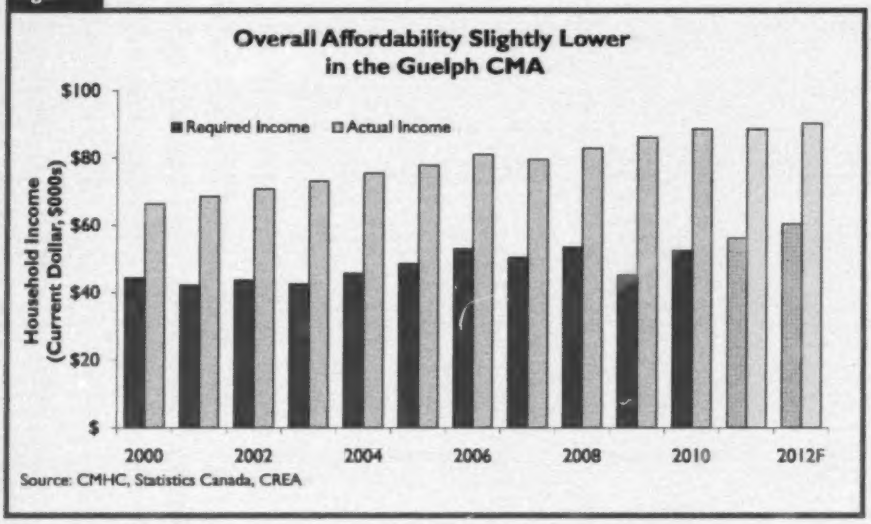


Figure 4



Listings Flatten

New listings have not been as volatile as sales over the last three years. New listings In Kitchener have been trending higher since 2000, while Guelph listings have been trending lower since 2008. Although, the stock of existing homes and the population are increasing, for 2011 new listings will remain near the 2010 level. Softening sales and limited price growth in the first half of 2011 may keep some potential repeat buyers on the sidelines, but as prices rise later in the year, more homeowners will be encouraged to list their homes for sale.

Little Price Growth

Prices are trending higher, but have been very volatile over the last three years. Prices vary month to month depending on the price distribution of the homes sold. For 2011, the resale market will ease, but will still favour sellers for much of the year. Although prices have come off the highs recorded in 2010, they will increase from this lower level throughout 2011. Overall, prices in 2011 are expected to increase from 2010, but only at or slightly below the rate of inflation.

New Home Market

Starts to Slip in 2011

Housing starts in the Kitchener-Cambridge-Waterloo (subsequently referred to as Kitchener) and Guelph Census Metropolitan Areas (CMAs) will decline in 2011, but recover slightly in 2012. Starts have also been volatile over the last three years. A stronger local economy with higher employment, pent-up demand, and anticipated higher mortgage rates, increased demand for new homes in 2010. Demand for new homes slowed after the pull-forward demand of late 2009 and early 2010, resulting in lower sales in late 2010 and thus lower construction in 2011. Construction of most housing types will be lower in 2011. Demand should pick up later in 2011 as the economy continues to improve and buyers return to the market. The new home market typically experiences more pronounced declines than the resale market when conditions soften as resale volumes derive more stability from the turnover of a large and growing stock.

The type and location of housing starts will be impacted by the Places to Grow Act/Official Plans and the staging of development of each municipality. Kitchener has land available for potential development, but does vary by municipality and type and many factors come into play when moving forward with construction including the economy, consumer preferences, costs, servicing and location.

Single-Detached Starts Slide

Single-detached construction in the Kitchener and Guelph areas will decline from the stronger levels recorded in 2010 and remain below the average since the middle of the last decade. Single-detached starts are at a lower level, about half of what was seen prior to 2006. In Kitchener, single starts are forecast to trend lower for most of this year before moving higher in 2012. In Guelph, detached starts should trend higher from the lower level recorded in the first quarter. With few single-detached units unsold at completion, any increase in demand must be met by new construction.

Other Starts Also Lower

Stronger demand from first-time buyers and empty-nesters led to a surge in construction of the relatively more affordable townhouses and condominium apartments in 2010. In 2011, townhouses and apartments will continue to be in high demand,

but with so many units currently under construction, builders may delay starting new projects. The push to reurbanization and intensification in the Greater Golden Horseshoe Area will continue to shift the focus of new construction toward higher density forms of housing. A spike in residential building permits at the end of 2010 augers well for the building community in the Kitchener-Cambridge-Waterloo CMA in 2011 and 2012. Permits for several large apartment buildings have been issued, and construction on these buildings will begin in 2011 and continue into 2012.

Price Growth Slows

Single-detached home prices will increase. In Kitchener, the average price of a newly-completed single-detached home increased by ten per cent in 2010, while prices in Guelph increased by five per cent. Much of the price increase in 2010 was compositional, as homebuyers took advantage of the low mortgage rates to buy more expensive home or optional upgrades. Some prospective buyers considering homes at higher price ranges opted to purchase a home prior to the date when the new HST came into effect to avoid paying any incremental costs, which resulted in some home purchases being brought forward into the latter part of 2009 and the early part of 2010. With lower demand in 2011, there should be a stabilization of prices, but limited inventory plus rising government-imposed costs puts upward pressure on prices. Prices for single-detached homes will increase in line with the New Home Price Index (NHPI), which is expected to increase by two per cent in 2011. The NHPI measures the change in the price of constant quality homes.

Local Economy

Recovery Will Continue

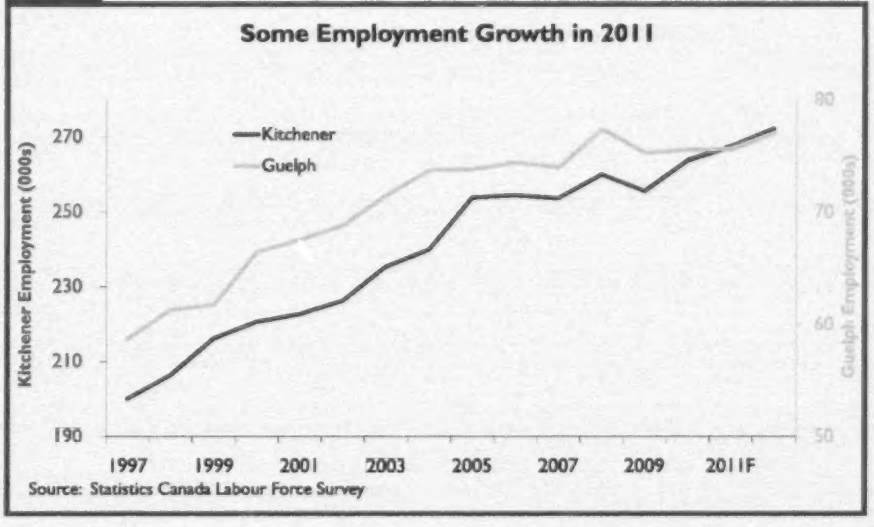
Employment is a key factor in housing demand. The labour market will continue to expand as net migration rises. Developments in the labour market typically impact the housing market six to nine months down the road. Employment growth in early 2011 suggests more support for housing by the latter part of 2011 and moving into 2012. Unemployment rates will continue to move lower as job growth outpaces increases in the labour force.

Kitchener and Guelph employment is moving in tandem, but Kitchener is well ahead of Guelph in recovering jobs. After a very strong rebound in Kitchener employment in 2010, growth is expected to slow in 2011. The economy continues to gain momentum and most of the increase in jobs was for full-time employment.

Kitchener and Guelph both have diverse economies. The goods-producing sector is leading the recovery in jobs. Manufacturing jobs have been trending higher. The winding down of the infrastructure program and a slowing housing market will reduce hiring in the real estate services and construction industry. In Kitchener, the high level of non-residential construction will somewhat offset the decline in the residential sector. The value of permits taken out jumped in 2010, and will keep employment in construction at a strong level in 2011.

In Kitchener, with a strong level of growth in full-time jobs and the unemployment rate moving lower, wage growth should be above the rate of inflation. In Guelph, lower employment growth will result in little wage growth in 2011.

Figure 5



Population Continues to Grow

Population growth is another key component of housing demand. Both migration and natural increase add to population growth in Kitchener-Guelph. Net migration makes up just over 50 per cent of the population growth in Kitchener and is expected to average more than 3,000 in 2011 and 2012. In Guelph, migration is equally important and will average close to 1,000 in the next two years.

Ontario's population growth is driven by international migration. Canada will be a popular destination for international migrants as uncertainty in the rest of the world due to natural disasters, debt and global conflict remain high. Taking population into account, Kitchener is second only to Toronto in attracting immigrants. Almost all (98 per cent) of migrants to Kitchener are under the age of 45 years, that is, younger households are moving to Kitchener. In Guelph, migrants come from all age groups. The many retirement lifestyle projects built in recent years bear witness to the fact that older adults and retirees find Guelph an attractive place to live.

Mortgage Rate Outlook

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Kitchener-Cambridge-Waterloo CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	6,269	6,580	6,772	6,500	-4.0	6,600	1.5
MLS® New Listings	10,521	10,387	10,967	11,000	0.3	11,100	0.9
MLS® Average Price ($)	271,222	269,552	289,041	294,000	1.7	302,000	2.7
New Home Market							
Starts:							
Single-Detached	1,446	1,161	1,255	1,120	-10.8	1,200	7.1
Multiples	1,188	1,137	1,560	1,500	-3.8	1,500	0.0
Semi-Detached	82	62	94	100	6.4	100	0.0
Row/Townhouse	569	565	498	450	-9.6	500	11.1
Apartments	537	510	968	950	-1.9	900	-5.3
Starts - Total	2,634	2,298	2,815	2,620	-6.9	2,700	3.1
Average Price ($):							
Single-Detached	352,644	345,289	378,811	386,000	1.9	391,000	1.3
New Housing Price Index (% chg.)	2.4	0.6	1.3	2.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	1.8	3.3	2.6	2.4	-0.2	2.3	-0.1
Two-bedroom Average Rent (October) ($)	845	856	872	882	-	900	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	259,900	255,400	263,700	267,420	1.4	272,130	1.8
Employment Growth (%)	2.5	-1.7	3.2	1.4	-	1.8	-
Unemployment rate (%)	6.0	9.5	8.0	7.0	-	6.7	-
Net Migration	3,169	2,457	2,865	3,100	8.2	3,200	3.2

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Spring 2011	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,794	2,878	2,834	2,800	-1.2	2,900	3.6
MLS® New Listings	4,830	4,456	4,542	4,500	-0.9	4,420	-1.8
MLS® Average Price ($)	267,329	265,799	295,207	297,000	0.6	303,000	2.0
New Home Market							
Starts:							
Single-Detached	425	299	406	300	-26.1	340	13.3
Multiples	662	268	615	575	-6.5	565	-1.7
Semi-Detached	44	74	34	40	17.6	40	0.0
Row/Townhouse	160	124	391	375	-4.1	375	0.0
Apartments	458	70	190	160	-15.8	150	-6.3
Starts - Total	1,087	567	1,021	875	-14.3	905	3.4
Average Price ($):							
Single-Detached	371,957	367,011	385,227	392,000	1.8	397,000	1.3
New Housing Price Index (% chg.) (Ont.)	3.5	0.1	2.4	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	2.3	4.1	3.4	3.2	-0.2	2.8	-0.4
Two-bedroom Average Rent (October) ($)	869	874	887	896	-	905	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	77,400	75,300	75,500	75,600	0.1	77,000	1.9
Employment Growth (%)	4.6	-2.7	0.3	0.1	-	1.9	-
Unemployment rate (%)	5.6	8.3	7.9	7.1	-	6.9	-
Net Migration	1,017	839	917	950	3.6	1,000	5.3

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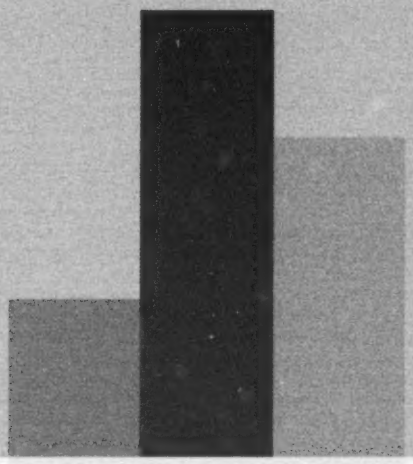

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